#Buildbackbetter for personal financial wellbeing - insights into policy development priorities for a post Covid-19 environment

Briefing Paper BP7/2020

COVID-19: An opportunity to rethink how we 'do tax' and improve social inequality

Dr Sara Closs-Davies
Bangor University Business School

July 2020

The recent and on-going COVID-19 crisis has alerted many of us to question and review the current tax system in the UK. The report published by The Centre for Policy Studies (CPS), 'After the Virus' (2020), is a recent example that sets out recommendations on how to jump-start the economy and reduce its crippling long-term effects. One of its key recommendations is to focus on growth, rather than raise tax rates and reduce public spending, to aid recovery and help finance the billions of pounds spent on helping people and businesses through the crisis (for example, the Furlough Scheme and Self-employment Income Support Scheme). COVID-19 raises important questions surrounding tax systems, not only in the UK but worldwide. We should therefore grasp this as an opportunity to embark on a system-wide review of the UK tax system.

The CPS is not alone in addressing this issue: Several tax policymakers, practitioners and academics have called for a review of the UK tax system. Their ambitious proposals include reforming and rebalancing taxes on capital, income and consumption, tax distribution and reviewing central and devolved tax powers across the UK. However, such recommendations for tax reform focus on tax policy and structure, to include increasing or reducing VAT and income tax rates and reviewing welfare and infrastructure spending. However, one area that always seems to be missing in this important conversation is tax administration.

Tax administration and administrators are the crucial cog in our complex tax machine which seems to always miss the limelight whenever the call for tax reform comes on stage. Of course, designing and implementing tax policy is an important part of any tax system, but the way it is administered is equally as important if policy is to achieve its aims. It is within tax administration - the point at which citizens meet and deal with tax policy via tax officials or online services that tax policy comes alive. Otherwise, it is simply something that exists but is not operationalised. It is during such encounters that tax policy takes shape, is reshaped, and has real life financial and non-financial consequences for citizens and government. For example, Closs-Davies *et al*. (2020a) demonstrate how the transformation of office-based culture within the UK tax authority has undesirable consequences for both tax workers and citizens (ineffectiveness of tax policy, low staff morale, loss of trust and unresponsiveness towards citizens' needs). Closs-Davies *et al.* (2020b) highlight the implications and impact of tax workers' practices in (dis)empowering citizens, worsening their financial hardship depending on their personal circumstances, calculative skills and capacities. In contrast, Rogers and Closs-Davies (2019) show how timely and meaningful encounters between Welsh Revenue Authority (WRA[1]) workers in Wales empower and build trust between Welsh Revenue tax workers and citizens. Thus, improving tax payer attitudes and perceptions of the tax system which may encourage tax compliance.

Understanding everyday encounters at the frontline of public services "is integral to understanding public administrations and policies" (Pors & Schou, 2020, p. 1) so that we can improve its effectiveness and efficiency, and, as equally important, build trust, responsive-ness and fairness in our tax systems. I am not dismissing the importance of reforming tax policy and structure, far from it. But I am proposing a different approach to examine our tax systems post-COVID-19. An approach that views tax administration as a central aspect to reforming our tax systems. As King and Crewe (2014) candidly put it, "the failure to involve those who will have to implement a policy in the development of that policy almost invariably leads to failure" (p. 288). Several studies and literature exist within the public administration discipline that examine frontline encounters and their effects on citizens, bureaucrats and policy success/failure. For example, Michael Lipsky's work in the 1980s demonstrates how the discretions adopted by bureaucrats at the frontline (re)shape policy. Vincent Dubois' (2009, 2017) ethnographical work in welfare offices in France shows the complex relationship between bureaucrats and citizens, and how bureaucrats manage impersonal, tense and difficult situations with a lack of resources. This body of literature has developed and grown to consider digitised encounters which show how social inequalities are reproduced through modernised online platforms (Bovens & Zouridis, 2002; Eubanks, 2018; Schou & Pors, 2019, 2020). Existing literature identify opportunities, weaknesses and issues surrounding frontline public administration and how they often reproduce social inequality. However, the majority of this literature tends to focus on health, education and welfare. There is relatively a lack of empirical research that examines tax administration at the frontline and its implications on

[1] The Welsh Revenue Authority collects and manages Welsh devolved taxes.

inequality (Closs-Davies, 2020a; 2020b), paying particular attention on digitised services (Schou & Pors, 2020) - which seems to have become the norm over recent years.

Further, existing research in this area tends to adopt a linear approach by either applying a top-down analysis, focussing on tax policy and structure, or taking a bottom-up approach, focussing on practice. However, it is not enough to simply study public policy in such unidirectional ways (Fassin, 2015a, 2015b); as if tax policy and tax practice are two distinct and isolated areas of study. I argue that we need to explore and understand tax policy as a relational phenomenon which is fluid, dynamic and sits within and in-between structure and practice. This approach adds that extra special ingredient towards understanding taxation and its consequences so that we can provide greater transparency, accountability, certainty and fairness. Improving citizens' trust in the tax system and sense of fairness may well increase tax compliance and motivation amongst taxpayers which inevitably would increase tax revenue and reduce social inequality.

When COVID-19 struck the UK in February 2020, the government reacted relatively swiftly in finding ways to help individuals and businesses through the crisis. This included quick design and implementation of several different financial-support schemes. For example, the Furlough Scheme which provides financial support to employers to help fund employee wages with the aim of avoiding redundancies; and the Self-Employment Income Support Scheme which offers grants to businesses adversely affected by the virus. All such new schemes place even more pressure on tax administrators and on digital tax services to get to grips with ever-changing programmes and procedures, Ministerial demands and claimant/taxpayer needs.

Existing studies show how (in)effective communication about new tax programmes can impact citizens' perception and understanding of tax and tax authorities (Rogers and Closs-Davies, 2019). Therefore, if we are to develop and reform tax policy during and after COVID-19, we need to hone in on issues surrounding tax administration and adopt a relational approach to examine frontline services if we are to succeed at improving the effectiveness and efficiency of tax policy. Understanding what goes on during everyday tax encounters will help towards improving financial wellbeing for those of whom tax policy is aimed to help. Consequently, reducing social inequality.

Author: Dr. Sara Closs-Davies
Please feel free to contact the author for further discussion or information, on s.closs-davies@bangor.ac.uk
30th July 2020

References

Bovens, M and Zouridis, S (2002). From street-level to system-level bureaucracies: How information and communication technology is transforming administrative discretion and constitutional control. Public Administration Review, 62(2), 174–184. doi:10.1111/0033-3352.00168

Centre for Policy Studies (2020) 'After the Virus A plan for restoring growth', Centre for Policy Studies, 57 Tufton Street, London, SW1P 3QL, ISBN 978-1-910627-84-6, Available at: https://www.cps.org.uk/files/cps/CPS_AFTER_THE_VIRUS_1.pdf?_cldee=c2FyYWNsb3Nzc3RhY2V5QGFvbC5jb20%3d&recipientid=contact-b650991d3dc6e711810f70106faa2721-3c252351bf7c4dfe9f4c8525b4cb796a&esid=f1d0d7bf-c3b7-ea11-a812-002248007f84, Accessed on 26.06.2020.

Closs-Davies, S C, Merkl-Davies, D M and Bartels, K (2020a) Tax Credits as an accounting technology of government: "Showing my boys they have to work, because that is what happens", Working Paper.

Closs-Davies, S C, Bartels, K and Merkl-Davies, D M (2020b) The Frog in the Pan: Relational Transformation of Public Values in the UK Tax Authority, Working Paper.

Dubois, V (2009) Towards a critical policy ethnography: Lessons from fieldwork on welfare control in France. Critical Policy Studies, 3(2), 221–239. doi:10.1080/19460170903385684

Dubois, V (2017) The bureaucrat and the poor: Encounters in French welfare offices. London: Routledge.

Eubanks, V (2018) Automating inequality: How high-tech tools profile. Police and punish the poor. New York: St. Martin's Press.

Fassin, D (Ed) (2015a) At the heart of the state: The moral world of institutions. London: Pluto Press.

Fassin, D (2015b) Introduction: Governing precarity. In D Fassin (Ed) At the heart of the state: The moral world of institutions (pp. 1–11). London: Pluto Press.

King, A and Crewe, I (2014) The Blunders of our Government, London: Oneworld Publications.

Lipsky, M (1980) Street Level Bureaucracy: Dilemmas of the Individual in Public Services. Russell Sage Foundation.

Pors, A and Schou, J (2020) Street-level morality at the digital frontlines: An ethnographic study of moral mediation in welfare work, Administrative Theory & Praxis, DOI: 10.1080/10841806.2020.1782137

Rogers, H and Closs-Davies, S (2019) Funding Prosperity: Creating a New Tax System in Wales, Federation of Small Businesses (FSB) Report, Available at: https://www.bangor.ac.uk/research/news/effective-communication-and-engagement-with-businesses-critical-to-making-wales-new-tax-system-a-success-suggests-new-report-40212, Accessed on 15.06.2020

Schou, J and Pors, A S (2019). Digital by default? A qualitative study of exclusion in digitalised welfare. Social Policy & Administration, 53 (3), 464–477. doi:10.1111/spol.12470

The views expressed in this Briefing Paper are the views of the author and do not necessarily represent the views of CHASM as an organisation or other CHASM members.

If you would like to find out more about the work that CHASM does, please visit:

www.chasm.bham.ac.uk

@UoBCHASM